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SUBJECT: GUANGDONG COURTS ALIBABA TO BE THE CANTON TRADE FAIR THAT NEVER CLOSES

REF: GUANGZHOU 249

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¶1. (SBU) Summary: After heavy lobbying from Guangdong's Party Secretary, E-commerce giant Alibaba, the largest B2B portal in China, recently announced it would set up its South China regional headquarters in Guangzhou, an investment that could bolster the province's efforts to upgrade local industries. An Alibaba executive told us that Party Secretary Wang Yang's proactive courting and guarantees of government support were instrumental in the firm's decision to expand in Guangzhou. In addition, she pointed out that Guangdong is home to tens of thousands of small-to-medium enterprises (SME's), the company's target customers, and that Guangdong entrepreneurs are already relatively tech-savvy and should take easily to using Alibaba's online marketing tools. End Summary.

Alibaba to Pump Money and People into Guangdong

¶2. (SBU) Alibaba will invest USD 200 million in Guangdong over the next three years and increase the size of its local staff from 700 to over 1,000 within two, according to Guangdong Marketing Manager Luo Yun. Major initiatives on its agenda include building a data center; expanding its Guangdong call center to cover Hong Kong and Macao; and rapidly expanding its training session program, which aims to teach Guangdong's tens of thousands of SME's how to participate in its online marketplace.

Wang Yang Was the Key Proponent in Courting Alibaba

¶3. (SBU) Ms. Luo confirmed that Party Secretary Wang played a key role in persuading Alibaba founder Jack Ma to set up his company's South China headquarters in Guangdong, and said Wang provided the all-important guarantees of government support. In addition to Wang, Luo noted, several other prominent Guangdong government officials were also strong advocates, including Governor Huang Huahua, Guangzhou Vice Mayor Xu Zhibiao, and Foshan Party Secretary Lin Yuanhe. She explained that Wang's lobbying campaign began in February 2008, when he visited Alibaba headquarters in Hangzhou, Zhejiang and invited Ma to develop the e-commerce industry in Guangdong, offering guarantees of support. Wang and other delegates from Guangdong also met with Alibaba's CEO, Ma Yun, during the National People's Congress (NPC) in early March in Beijing. Local officials from Foshan and Zhongshan municipalities have also been active in the lobbying effort, signing separate cooperative

agreements with the firm.

¶4. (SBU) Luo said that Wang believes Alibaba's business and marketing strategies harmonize with his own strategies for increasing Guangdong SME's access to domestic and international markets through e-commerce. She described how Alibaba currently conducts 40 training sessions per month in Guangdong aimed at familiarizing SME's with its e-commerce marketing tools. In these sessions, Alibaba invites entrepreneurs who already benefit from the company's services to give presentations on their experiences aimed at teaching SME's how to expand their customer base and market access using the Internet. In the process, Alibaba secures more paying members. (Members pay a minimum of 50,000 RMB to have their product pictures and video clips of their factories uploaded to Alibaba.com). Luo said Alibaba is planning to dramatically expand its training session program in Guangdong.

¶5. (SBU) Luo further explained that Alibaba markets itself as "a trade fair that never closes." It should be no surprise then that Wang and other government officials in Guangdong -- home to the Canton Trade Fair, China's largest and oldest trade gathering (reftel) -- should be interested in expanding its marketing efforts into the virtual marketplace. Luo was careful to add, however, that Alibaba would not usurp the Canton Trade Fair or similar events in its importance. She asserted that many buyers rely on Alibaba's services to narrow the field of suppliers down to a few candidates that they then meet with at the Canton Trade Fair before making their final purchasing decisions. Luo described it as old-world and new-world commerce working in harmony.

Numerous SME's and Tech-Savvy Populace Also Attractive

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¶6. (SBU) Luo commented that the market potential for Alibaba's services throughout Guangdong is huge, another key factor in its decision to expand here. Guangdong has tens of thousands of export-oriented SME's, Alibaba's target customers, and Luo's market research shows only about 2 percent of them currently market their products online. To summarize her views of Guangdong's market potential, Luo quoted Ma as saying, "Alibaba started business in Zhejiang, but will prosper in Guangdong."

¶7. (SBU) Luo also highlighted a third selling point: many of Guangdong's entrepreneurs already have a basic understanding of the Internet and e-commerce. This minimizes the need for Alibaba to nurture the market and educate Guangdong's SME's on how to use the company's online marketing tools. Indeed, according to the "2007 Internet Development Statistic Report" issued by the China Internet Network Information Center, there are 30 million Internet users in Guangdong alone, which accounts for 15.9 percent of the total Internet users in China. (Note: much of the recent growth in Internet usage in Guangdong is due to WAP network development and the associated growth in mobile Internet users. End note.) Nearby Fujian and Shanghai rank second and third respectively among China's provincial-level jurisdictions, each with about 8 million Internet users and about 4 percent of the total Internet users in China.

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